Nassau County Comptroller's

Audit Advisory Committee

2005 Annual Report

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Executive Summary:

The Nassau County Comptroller's Audit Advisory Committee was established by Comptroller Howard S. Weitzman in 2003 to provide outside advice and oversight for the county's financial and auditing operations. Of the committee's seven members, two are government officials and five are county residents experienced in financial matters. Currently, one resident member position is vacant and a search is underway to fill it.

In 2005, committee members focused on departmental internal controls and documentation of county procedures and processes. They monitored the progress of the administration's internal control initiatives and followed up on critical issues identified in 2004, including the financial stability of the Nassau Health Care Corporation (NHCC) and the county's progress in addressing tax certiorari payments. In addition, committee members monitored the work of the county's outside auditors and the progress of the Comptroller's Office 2005 internal audit plan. The committee also met with state officials concerning the state's sales tax collection and distribution procedures, and continued to review new Government Accounting Standards Board pronouncements (GASB).

In 2005, the committee maintained two sub-committees, the Financial Controls sub-committee, and the Nassau HealthCare Corporation sub-committee. The sub-committee on Financial Controls reviewed county financial control processes and corrective measures that the county was taking to improve those processes. (The sub-committee reports are attached as Exhibits.)

The committee also continued to review:

- the County's progress in streamlining the tax certiorari refund process, in reducing the backlog of old claims and, accordingly, its tax certiorari liability.
- corrective actions implemented by the Treasurer's Office to improve processing controls.
- Comptroller's Office Audit reports and corrective action plans (CAPs) submitted by county departments in response to audits. The committee reviewed departmental procedures in place to track implementation of corrective measures identified in audit CAPs.

Committee members noted that the county made progress during the year in identifying and resolving internal control weaknesses and in ensuring that departmental processes and procedures were documented. However, the committee expressed concern that the assignment of Compliance Officer Helena Williams to other county matters could jeopardize the county-wide internal control evaluation initiative that she heads. The sub-committee on Financial Controls met periodically with representatives of the county's administration to monitor progress on a county-wide internal control initiative launched in 2005. Careful monitoring and regular status updates on the county's progress will continue.

The subcommittee on the Nassau Health Care Corporation reviewed the performance of the Nassau University Medical Center (NUMC) and compared the performance to the report of the consultants (Manatt Phelps) and reported thereon to the full committee. The subcommittee's report is attached as Exhibit VI.

Background and Purpose:

The Nassau County Comptroller's Audit Advisory Committee (Committee) was established to assist in the monitoring of Nassau County's finances, its financial statements and the review of those financial statements by the county's outside auditors. In addition, the committee advises the Comptroller concerning audits performed by his office.

The committee assists in monitoring the independent audit of the county's financial statements, from the selection of the independent auditor to providing advice on the resolution of audit findings. The committee examines the appropriateness of the outside audit's scope, the preparation of the annual financial statements, the audit results and the assessment of the adequacy of internal controls by both the administration and the auditors. Similarly, the committee reviews and comments on the Comptroller's internal audit plan, audits prepared pursuant to that plan, agency responses, and county control directives and procedures. Additionally, when appropriate, the committee will periodically conduct special projects.

Committee Composition:

The Committee is composed of seven members (at present one non-county position is vacant, with a search underway for a successor):

- County Executive or designee
- County Comptroller or designee
- Five experienced county community/business/financial leaders selected by the Comptroller who are independent of the county and local governments. One of the five non-county members is chosen to serve as committee chairperson.

In 2005, Committee members were:

H. Richard Grafer: A retired Partner and Managing Director of Arthur Andersen, LLP, is sole owner and Managing Member of Pathway Investments, LLC, a venture capital firm investing in companies with a social mission.

Manuel Mosquera: Nassau County's Deputy Comptroller for Audits and Special Projects (serving as designee of the County Comptroller).

Ralph S. Polimeni: Dean of the Frank G. Zarb School of Business at Hofstra University, where he also holds the Chaykin Endowed Chair in Accounting. Mr. Polimeni is currently the Chairperson of the Committee.

Edward S. Scott: Deputy General Counsel and Vice President of Development and Acquisitions for UrbanAmerica, LP. (Committee member through November 17, 2005)

Terence E. Smolev: Partner in charge of tax, trusts and estates with the law firm of Forchelli, Curto, Schwartz, Mineo, Carlino & Cohn, LLP. Mr. Smolev is currently the Vice Chairperson of the Committee.

Robert Andrew Wild: Chairman and Managing Partner of Garfunkel, Wild & Travis, P.C., a law firm specializing in healthcare.

Martha Herrera-Wong: Deputy Budget Director in the Nassau County Office of Management and Budget (serving as designee of the County Executive).

In addition, the County Comptroller and a partner of Deloitte & Touche, the county's current outside audit firm, attend every committee meeting.

Service on the committee is pro-bono. County officials serving on the committee do not receive compensation in addition to their regular salaries. Outside members serve staggered terms so as to ensure continuity and stability.

The Year in Review:

During its second full year, the committee continued its examination of county internal control policies and procedures, and reviewed the administration's efforts to develop uniform departmental procedures and to identify internal control weaknesses. The committee continued to monitor the county's progress in responding to other identified matters of concern, such as tax certiorari liability and payments, the financial condition of the Nassau Health Care Corporation (NHCC), and problems noted by the Comptroller's 2004 audit of the county's Economic Development Vertical. The committee also reviewed the Comptroller's audit reports issued during 2005 and the status of departmental audit corrective action plans (CAPs). It identified new issues for review, including sales tax revenue collection and distribution procedures.

In November, committee member Edward S. Scott resigned his position to avoid a potential conflict of interest. The Committee thanked him for his service. Comptroller Weitzman asked for suggestions from committee members for candidates to fill the vacant position and also plans to solicit candidates from legislative leaders.

At committee meetings, Comptroller Weitzman, Deputy County Executive for Budget and Finance Arthur Gianelli and Robert Rooney, the Deloitte & Touche partner in charge of the county's outside audit, provided the members with frequent updates on major financial or operational issues facing the county.

The sub-committees on Financial Controls and on the Nassau Health Care Corporation also met periodically and briefed the whole committee.

County Financial Controls & Documentation of Policies

In its first year, the committee noted that a lack of documentation was a recurring problem in county departments. In 2005, members continued to monitor the administration's progress on this issue. Deputy County Executive Gianelli updated the committee on the administration's ongoing efforts and on the assistance of outside accounting firms in this documentation effort. The sub-committee on Financial Controls (Richard Grafer, Chairman, Manuel Mosquera and Martha Wong),[1] continued to monitor the evaluation of county accounting procedures and internal controls as well as a number of previously identified matters of concern and corrective measures taken. The sub-committee expressed specific concern about the following two new issues identified: (1) Compliance Officer Helena Williams has been assigned additional responsibilities, which could jeopardize the county-wide internal control evaluation initiative that she heads, and (2) based upon the nature of exceptions identified by the county Vendor Claim Center in processing claims, it appears that departmental review and approval procedures may need strengthening.

[1] This sub-committee was formed in 2005 to replace two prior sub-committees, the Economic Development Vertical and the Financial Controls System sub-committees.

During 2005, the committee was informed that Bloom & Company, Certified Public Accountants, has been retained to assist the economic development vertical with documenting internal controls and that a specific internal controls review will be performed of the Information Technology Data Center. Member Grafer updated the committee on the administration's internal control review program and noted that the review had confirmed the existence of deficiencies in the documentation of control policy as well as weaknesses in a number of other areas. Mr. Gianelli informed the committee that the administration was documenting policies for large departmental programs and would discuss with the administration the need to document smaller programs.

In response to Mr. Rooney's concern that the county was inconsistent in how it recognized and documented grant funds, an internal control concern, Deputy County Executive Gianelli advised the committee that he planned to form a working group to standardize grant fund quality control procedures. Subsequently, committee member Wong advised the committee of the administration's efforts to improve grant reconciliation throughout the county. Departments would be requested to identify the grants they are receiving, report any grants for which they intend to apply, and would attempt to reconcile grants from 2000 to 2002, a major undertaking. Training will be implemented to teach departments how to reconcile deferred revenue. The goal of these efforts is to ensure that revenue is booked during the term of the grant and to stop grant carry-overs. Member Wong informed the committee that a task force had been created to review grant control issues and was compiling an instructional manual for departments. Mr. Rooney stated that Deloitte will recommend the creation of an enhanced grant administration position. Mr. Gianelli expressed a concern that the county has not utilized program-specific federal grant funds to their full potential and indicated he intends to work to increase this potential source of revenue.

In February 2006 Mr. Gianelli took a position at NUMC. However, the administration is committed to the above initiative.

The Sub-Committee on Financial Controls

The sub-committee met a number of times with County Compliance Officer Helena Williams to discuss county internal control initiatives.[2] Ms. Williams stated that departmental internal control committees, each with three to seven members and a chair to coordinate with the Compliance Office, had been formed. In addition, the Compliance Office and outside consultant have commenced an Internal Control Review Program. Each departmental internal control committee completed an internal control checklist that the Compliance Office is reviewing, and each committee is developing a multi-year plan to eliminate internal control weaknesses or "gaps."

The Compliance Office and its consultant, American Express, are prioritizing into high, medium, and low the internal control risks of the departments that formed internal control committees. Committees for high risk/priority departments and agencies are receiving assistance in process mapping, confirmation of internal control "gaps," and in evaluating multi-year plans established

[2] The Sub-Committee's report of the April meeting is attached as Exhibit II.

to eliminate gaps. Assistance is also being provided to committees for medium and low-risk departments and agencies as needed.[3]

Ms. Williams summarized for the sub-committee the results of the departmental internal control questionnaires. Ineffective controls were noted in 16% of responses, while weak existing controls were noted in an additional 6% of responses. Major weaknesses, as expected, were related to documentation and information technology. The county is reviewing major risk areas, such as cash receipts, residential tax certiorari procedures, the Department of Information Technology's new data center, and new payment procedures for the Traffic and Parking Violations Agency. These reviews include detailed process and control mapping by American Express.

In addition, the Compliance Office is developing uniform county government accounting and control policies, including policies for meal and travel allowances, time and leave, petty cash management, and vehicle leasing. The Compliance Officer issued a procurement policy in September 2004. These policies will be posted on the county intranet system.

Ms. Williams also reported that the county held training sessions to brief department internal control committees on the questionnaire responses and to discuss the approach needed to improve ineffective and weak controls. Each committee has been requested to begin testing weak areas. American Express is being asked to develop a standardized work program for this process, which the committees will tailor to their special circumstances. The sub-committee advised Ms. Williams that based upon the nature of exceptions identified by the county's Vendor Claim Center while processing claims, it appears that departmental review and approval procedures may need strengthening. Ms. Williams indicated that if departmental processes for review and approval of contract claims were identified as ineffective or weak as the internal control committees continued their work, the county would test the processes and provide departments with specific claim approval procedures.

Ms. Williams informed the committee that the Police Department is serving as a "testing ground" for rigorously addressing county timesheet reporting problems. At future sub-committee meetings, the county's procurement policy and other new policies established by Ms. Williams's department will be discussed. In general, members noted progress in the internal control review program.

During the year, the sub-committee reviewed the internal control checklist and county procurement policy and noted that the county appeared to be making progress in documenting controls, and in identifying and eliminating gaps in documentation. The sub-committee will continue to monitor the county's progress.

The sub-committee[4] also discussed the need to determine whether affiliated entities, such as Nassau Community College, had adopted sound internal control practices. (This issue was discussed with the full committee, and Member Grafer noted that some affiliated entities, as subdivisions of the state, are not subject to the county's direct authority.) The sub-committee

[3] The minutes are attached as Exhibit IV.
[4] The meeting agenda and minutes are attached as Exhibit III.

also agreed that its role did not include actual verification of procedures and controls and reported this conclusion to the full audit committee at its next meeting. After the sub-committee expressed concern that the Nassau County Industrial Development Agency (NCIDA) had not provided the Comptroller a corrective action plan in response to the Comptroller's audit of the Economic Development Vertical, Deputy Comptroller Mosquera contacted the NCIDA and received correspondence stating it had implemented the Comptroller's internal control recommendations.

The sub-committee presented an internal control question and answer response received from the county's Office of Compliance.[5] Sub-committee members identified two important issues for inclusion in the committee's 2005 annual report:

- The importance of implementing sound internal controls throughout the county, especially since areas of weak or absent internal controls were identified for 36 individual departments. Committee members stressed the importance of county leaders giving high priority to this issue and indicated that one possibility could be to assign a full-time internal control program director, assisted by full-time internal control directors in each vertical. Committee members stressed that implementation of sound internal controls should not be compromised due to other priorities. Committee members also expressed concern that Compliance Officer Helena Williams had recently been given additional responsibilities, thereby jeopardizing internal control evaluation and documentation priorities.

- Regarding approving vendor claims at the departmental level, committee members noted that Compliance Officer Helena Williams has recommended that a training program be developed for departmental employees, in conjunction with the Comptroller's Office, to educate department heads and their designees on proper claim review and approval procedures. The committee agrees with this recommendation and believes it should be implemented as quickly as possible, together with a standardized form to be used by the department heads/designees.

Committee members noted that an allocation of human resources would be required to complete these efforts.

The Sub-Committee on the Nassau Health Care Corporation

The sub-committee met with Nassau Health Care Corporation (NHHC) officials to discuss the projected loss for 2005.[6] NHCC officials indicated that the loss for 2005, originally projected at

[5] The Sub-Committee's internal control response questionnaire with responses from the county's Office of Compliance is attached as Exhibit V. While the questionnaire responses were discussed in detail at the January 2006 meeting, sub-committee members felt the issues should be included in the 2005 annual report.

[6] The minutes and report of the meeting are attached as Exhibit VI. The meeting was scheduled for late 2005, but held in 2006. Committee members believe it should be referenced in the 2005 annual report.)

$6.5 million, was predicted to be approximately $11.25 million. They also noted that unless changes were made, the loss in 2006 would be $32 million.

NHCC officials described the cash position of the hospital as "very tenuous," indicating that although New York State had acknowledged monies owed to the hospital, the monies had been delayed. The amounts include approximately $6.5 million in pool payments and $8 million in inter-government transfers. Initiatives described by NHCC to help achieve the hospital's 2006 break-even budget were detailed, with estimated revenues. They include:

1. achieving hospital-based and bed-hold status for the A. Holly Patterson Nursing Home: $6.2 million.
2. opening three new behavior health units during the year: $2.8 million.
3. management of payment denials: $2 million.
4. selling accounts receivable: $872,000.
5. implementing an enhanced approach to capturing charges: $500,000.
6. improving documentation of medical records: $750,000.

Additional initiatives on the expense side, and the estimated amount of savings, include:

1. supply chain management: $3.9 million.
2. insurance savings: $1 million.
3. staff reductions: $15.6 million.

Staffing and attrition were discussed in detail. It was noted that use of agency staff had not been well controlled, and is reportedly now under greater control. A layoff of seven physicians and an additional planned layoff of four to five physicians will result in total savings of $2.675 million. The officials noted that, of the total initiatives of approximately $36 million, roughly $9.4 million are not within the control of the hospital. It was also noted that normal attrition of 120-175 persons would likely result in actual attrition of 60-80 people, as about half the nurses would have to be replaced.

NHCC officials indicated that if the pool monies due from New York State and other anticipated revenues were not received, it might be necessary for NHCC to look to the county for assistance. They also noted that the facility has a structural imbalance, in that revenues increase an average of 1% per year, but expenses go up 3%-4% per year.

There are plans to relocate the A. Holly Patterson Nursing Home to the hospital campus and substantially reduce its size. Officials commented that if the beds are moved and the hospital-based rate is achieved, the nursing home should run at least break-even or better.

Nassau County Treasurer

The former County Treasurer, Henry Dachowitz, met with the sub-committee and described the internal controls for cash receipts in the Treasurer's Office. He noted that 60% of receipts come from sales taxes, 20% from property taxes, and the remaining 20% from a variety of other sources. He provided the sub-committee details of how receipts are controlled and accounted for, and identified the internal controls provided by independent verification. Sub-committee members were generally satisfied with the procedures and controls in place, except with respect to miscellaneous taxes. The Treasurer also stated that his office is reviewing and changing where appropriate the cash management and control procedures in various county departments. Mr. Gianelli also updated the committee on corrective actions taken by the Treasurer's Office and restated his commitment to address committee concerns with the Treasurer's operations.

The sub-committee members expressed concern about collection procedures for various miscellaneous taxes (hotel and motel, entertainment venue, cell phones, 911 taxes, and similar taxes). Although the related revenues are small, the members agreed to keep this subject on their agenda for future review.

Mr. Dachowitz noted that historically, collection efforts were limited with respect to non-payment or underpayment of county receivables. The administration is now identifying all receivables and systematically entering them into a receivable system. In addition, the county has retained a collection agency and will be pursuing collection of overdue receivables.

Throughout the year, the full committee and the sub-committee on Financial Controls monitored the Treasurer's progress in addressing the following issues:

- Mr. Gianelli's staff examined controls over manual check processing and laser check printing. The Comptroller's Office worked cooperatively with the Treasurer to address laser jet printing control issues. It also audited the Treasurer's manual check procedures.
- Annual audit reports prepared by Deloitte & Touche stated the need for the Treasurer to reconcile various bank accounts to the general ledger accounts. While accounts were in balance overall, problems existed within individual fund balances. A project team had been put in place to address this situation, and a recently installed systems enhancement had automated and facilitated the overall reconciliation process. In March, Mr. Gianelli advised the committee that the imbalance issues had been resolved and that the Treasurer's Office would be reconciling its accounts monthly.

- The committee was updated on the administration's efforts to obtain information needed for its review of bank accounts not maintained within the county's financial system, the Nassau Integrated Financial System (NIFS). The administration is in the process of ascertaining whether a legitimate business purpose exists for maintaining each account.

- Deloitte & Touche is compiling a preliminary draft of policy and procedures manuals for the Treasurer's Office.

Department of Social Services (DSS)

Deputy Comptroller Mosquera reported on the status of the investigation of duplicate foster care payments made by the Department of Social Services to various agencies. Member Grafer had brought this issue to the committee's attention. DSS was informing providers of their obligation to refund approximately $1.9 million in duplicate payments to the county, and providers were offered the opportunity to make reimbursement through payment plans. Deputy County Executive Gianelli's staff were assessing whether duplicate payments were also made to providers by other DSS units. He advised the committee that the county's consultant, American Express, would be advising the county on how to prevent future duplicate payments, and that part of the problem related to the state's payment system. The Comptroller's Office has seen no evidence of fraud, and an accounting system flaw that allowed DSS staff to authorize payments without appropriate approvals has been identified and corrected.

Tax Certiorari

In 2004, the Committee had identified the real estate tax refund process as one of the county's most significant issues and continued to monitor the county's ongoing efforts to reduce its overall tax certiorari year-end liability. In January 2005, Deputy County Executive Gianelli advised the committee that property tax refunds for 2004 would be in excess of $180 million. He indicated that the administration examined the Treasurer's refund payment backlog and noted that it had made significant progress in improving the workflow, thereby reducing the backlog as well.

In March, Mr. Gianelli noted that the county was processing the largest payout of refunds in its history. He discussed settlement strategies, for which plans were in preliminary stages. In May, Mr. Gianelli advised the committee that the administration planned to go forward with a plan to pay into an escrow account funds it believes it owes plaintiffs who refused to settle assessment claims. He estimated that the county would pay $80 million into the escrow account. Mr. Gianelli noted that bond counsel had found that the escrow payments could be made using bond proceeds and stated that he would meet with the Comptroller's Office to review the procedures. Comptroller Weitzman and Deloitte were concerned about the reporting of the account, and Mr. Gianelli responded that the county planned to expense the escrow funds and that no funds would escheat back to the county. The payments would not affect the 2005 budget or financial statements.

Mr. Gianelli reminded the committee in July that 2005 was the final year the county could borrow money to pay tax refunds. Thus, the county planned to settle as many claims as possible in 2005. A software program will be developed to track county settlement offers and escrow amounts. In August/September, he said, reports would begin to be generated using that information.

Pension Payments & Other Accounting Issues

Randolph Ghisone, the county's Deputy Comptroller for Accounting, noted that the Government Accounting Standards Board (GASB) has issued a technical bulletin on retirement system payment accounting. County financial statements will be issued in accordance with generally accepted accounting principles (GAAP) and will contain an accrual for retirement system payments for the year ended 2004, in accordance with a change requested by the State Comptroller's Office. The county's budgetary statements will report the retirement system payments in February 2005, when actually made.

In March, Mr. Gianelli advised the committee that he intended to create a working group dedicated to improving the county's accounts receivable system. The group will evaluate how accounts receivable are booked and satisfied.

Plans to improve the county's vendor database are underway. Mr. Gianelli and the Comptroller's Office intend to overhaul the county's vendor registration process to improve the current system.

County's Financial Position

In March, Controller Weitzman provided the committee a graphic presentation of the county's surplus position historically from 1999 to 2004. In 2003 and 2004, the county's surplus exceeded its use of one-shot revenues, and even without these revenues, the county would still have maintained a surplus. Mr. Weitzman noted that this was a sign that the county's finances are currently structurally balanced and an indication of financial health. He cited payroll cuts, tax increases, and smart government initiatives as the reasons for the turnaround.

Deputy County Executive Gianelli reported to the committee on the county's fund balance reserves and cash position. The administration has committed to creating a fund balance policy, and the growth of the accumulated fund balance since the inception of the Suozzi administration has been significant. The accumulated unreserved balance has grown from $27.8 million to approximately $90 million in the five major funds, with an additional $10 million in the Debt Service Fund. From 2001 to the present, the county's fund balance including reserves has grown from $97.8 million to $307.4 million. The administration hopes to create a policy that maintains an accumulated unreserved fund balance of 4 to 5% of operations.

Mr. Gianelli noted that the county's structural deficit ended in 2003. He would like the county to maintain a total unreserved and reserved fund balance equal to 7% of operations. He also noted that the county's cash position was better in 2004 than in either 2002 or 2003, and projected this trend would continue in 2005, and that the county would have a second year of no cash-flow borrowing. Mr. Gianelli stated his intent to pursue a longer duration/higher yield investment portfolio.

Mr. Gianelli informed the committee that the administration intends to create a one-stop financial disclosure location on the county's website. The design would consolidate the county's financial data, including budgets, financial reports and cash flow statements. The purpose of the change is to increase transparency to ensure accountability.

In July, Deputy Comptroller Randolph Ghisone distributed the county's comprehensive annual financial report (CAFR) to the committee.

Internal Audit

Throughout the year, the committee reviewed Comptroller audit reports and monitored the Field Audit Unit's progress with the 2005 internal audit plan. Deputy Comptroller Mosquera explained that the 2005 Field Audit Plan called for revisiting certain previous audit findings, and examining department compliance with Corrective Action Plans (CAPs). Early in the year, committee members expressed concern over the lack of a formal tracking/monitoring mechanism for audit recommendations. Mr. Gianelli expressed his intent to develop a process in which the administration and Comptroller's Office could discuss concerns and establish a tracking mechanism to ensure that deficiencies are addressed to the satisfaction of the Comptroller's Office. A procedure for prioritizing audit findings was developed so resources could be efficiently allocated. With input and guidance from Robert Rooney and Manuel Mosquera, a CAP tracking report was developed to track and monitor the status of each audit recommendation. The committee offered suggestions to improve department accountability, and cooperative efforts between the Comptroller's Office and the administration will continue.

During the year, Deputy County Executive Gianelli discussed the Correctional Center audit report and whether changes would be implemented to the time and leave reporting system. The county has hired an outside consultant to complete a detailed needs analysis of county time reporting, human resources and payroll functions.

External Audit and Management Letter

In January, as part of Deloitte & Touche's due diligence, Robert Rooney asked committee members if they were aware of any willful fraudulent acts within the county. The members stated they were not aware of any such acts. Mr. Rooney also reported to the committee that the management letter to accompany the county 2004 financial statement audit found no reportable weaknesses. Mr. Rooney noted a lack of consistency in the methods county departments use to record deferred revenue and suggested that training be organized to address this issue.

In November, committee members received the draft 2005 management letter for review but have not yet reviewed and discussed the final letter.

Other Services Provided by the External Audit Firm

In January, Robert Rooney advised the committee that Deloitte & Touche had been awarded a contract with the county to provide an eligibility software package for the Department of Social Services (DSS). This project will allow county residents to determine health and human services eligibility through an online screening tool. Because the package was unrelated to the county's financial statements and the county's selection committee was distinct from the committee that selected Deloitte as the county's outside auditor, Mr. Rooney believed that Deloitte had no conflict of interest in providing both services to the county.

The Comptroller's counsel researched whether the provision of consulting services to the county's health and human services vertical posed a conflict of interest for the county's retention of Deloitte as it's outside auditor. He indicated that submission of a bid to create a non-financial system did not present a conflict. He also informed the committee that the award of the contract appeared to follow the county's competitive procurement procedures. Mr. Rooney agreed to Comptroller Weitzman's request that Deloitte notify the committee if it intended to bid on any future county contracts.

In November, Mr. Rooney informed the committee that Deloitte & Touche had been asked by DSS to extend its existing contract for non-financial consulting services at a cost of $100,000. After discussing the intended services, the committee agreed that the contract did not present a conflict.

Federal Taxes & State Sales Taxes

The committee monitored a number of tax related issues during the year. Deputy County Executive Gianelli briefed the committee on federal tax concerns regarding the "private use" of bond proceeds, and stated that the administration was aware of the tax consequences of exceeding private use limits. (When the county issues debt for projects, no more than a limited amount of the bond proceeds can be used for projects considered "private use.") The administration was establishing a detailed database that will track and document the use of bond proceeds.

In May, members discussed concerns regarding the allocation of sales tax revenues and enforcement of sales tax regulations, noting that sales tax revenues had declined. Comptroller Weitzman thereafter contacted the State Comptroller's Office and arranged for a teleconference with the committee on the sales tax collection process in November. The State Comptroller's Office had completed an audit of the State Department of Tax and Finance in December of 2004, with a primary focus on the sales tax distribution process. In general, the distribution of sales tax was found to be reasonably correct, although the audit noted that the state could improve the timeliness of the issuance of funds. State Comptroller staff noted that the audit recommendations have been implemented and that the Comptroller's Office will be following up on its findings.

During the teleconference, State Comptroller staff explained how revenue was allocated among the counties, how the state's audit process worked for large and small vendors, how interest and penalties were allocated, and how non-filers were identified. State Comptroller staff is providing additional information to the committee regarding interest and penalty payment procedures. The committee is also contacting the New York State Department of Taxation & Finance concerning the identification of entities that fail to file sales tax returns.

The State Comptroller's Office stated that due to strict tax secrecy laws, the state is not currently considering increased transparency to municipalities concerning vendor returns. The committee agreed that pending additional information from the state, it would investigate the county's entitlement to penalties and interest under the law, and interest generated due to the reconciliation of remitted municipal funds.

In July, Mr. Gianelli informed the committee that the administration had hired an economist to improve the county's ability to predict sales tax trends. The county and state have tentative plans to survey county retailers that report significant amounts of sales tax in an effort to better predict sales tax revenue. Comptroller Weitzman advised the committee of the Comptroller's Office's intended review of sales tax rates charged by county retailers during "back to school week." when a portion of the tax would be suspended, to ensure that appropriate tax rates were being charged.

SUMMARY

As in 2004, the county's finances could be seriously impacted by the NHCC and the successful completion of the program to reduce real estate tax liability and accelerate payment of refunds during 2005 with funds borrowed through NIFA. In 2006, Comptroller Weitzman will provide the committee with additional information on the status of the NHCC, and the committee will review the administration's progress in reducing the county's tax certiorari liability.

It is essential that the county continue to ensure that departments identify and correct internal control deficiencies, and complete their efforts to fully document processes and procedures. Although significant progress was made in 2005 with the implementation of the administration's county-wide internal control review program, the process is not yet complete, and the status of the program will be reviewed frequently. The committee hopes the administration's initiatives will continue. With the departure of Mr. Gianelli, the committee will continue to monitor the administration's progress in implementing the plans and programs described above, working with his replacement, Thomas Stokes.

Conclusion:

The committee is made aware of major financial issues facing the county, and the administration continues to provide the committee access to county employees and financial information. The committee has acknowledged where improvements have been made and has noted areas where more progress is necessary. During the coming year, the committee intends to follow up on issues already examined as well as to monitor new matters that may arise. Through follow-up and discussions at their regular meetings, and with the focused efforts of the sub-committee on Financial Controls, the committee will continue to provide advice and oversight.

EXHIBIT I

Mission Statement
Nassau County Comptroller's Audit Advisory Committee

The Nassau County Comptroller's Audit Advisory Committee was established to answer the call to assist in the monitoring of Nassau County's financial integrity. Its mission is to assist in the monitoring of the independent audit of the county's financial statements from the selection of the independent auditor to the resolution of audit findings. Specifically, the committee will assist in monitoring the following: selection of the outside, independent auditors; the appropriateness of the scope of the outside audit; the preparation of the annual financial statements; the results of the audit; and the assessment of the adequacy of internal controls by both the administration and the auditors. The committee will have a similar responsibility to assist in monitoring the establishment of the internal audit plan and reviewing the results thereof. Periodically, it will participate in special projects; review special district audits filed annually with the Comptroller; and review audits of county agencies prepared by the Comptroller, agency responses to those reports, and county control directives and procedures. This committee will review the process that exists for providing that the county's financial statements and audits are in compliance with the pronouncements of the Government Auditing Standards Board (GASB). It is committed to upholding continued excellence in Nassau County Government.

Exhibit II

TO: The Nassau County Audit Advisory Committee

FROM: The Sub-Committee on Financial Controls (H. Richard Grafer, Chairman, Manuel Mosquera and Martha Wong)

SUBJECT: Meeting Held on February 8, 2005 With Helena Williams

DATE: February 10, 2005

<u>INTRODUCTION</u>

This sub-committee on Financial Controls is the successor to two prior sub-committees functioning in 2004---The sub-committee on the Economic Development Vertical and Related Internal Control Issues and the sub-committee on the County Financial Control System. We have consolidated the two sub-committees into one because of the convergence of issues dealt with by both and the fact that both have the same members.

Late in 2004, two prior sub-committees established a checklist of follow-up actions it wished to take during 2005. The successor sub-committee held its first meeting on February 8 to discuss these actions in more detail as well as to meet with Deputy County Executive Helena Williams to get updated on the county's internal control initiatives. The matters discussed and decisions made are noted on the attached checklist in bold print. However, the more significant issues are summarized below.

<u>SUMMARY OF KEY ISSUES DISCUSSED WITH DEPUTY COUNTY EXECUTIVE WILLIAMS</u>

Forty-seven internal control committees have been formed representing the various departments and agencies throughout the county. Each committee has three to seven members appointed by the department or agency head, with one of those members designated as the Chair to coordinate with Ms. Williams's Office of Compliance. The department or agency head serves as the Internal Control Officer for his/her own department/agency.

In October 2004 Ms. Williams's office and American Express (selected in a competitive bidding process to assist the county implement this program), commenced the Internal Control Review Program. This program consists of the following steps:

1. A lengthy, county-specific internal control checklist was developed and completed by each of the 47 committees. This checklist not only asks whether or not specific internal controls exist but also how effective they are. This process has been completed, and the related checklists are now being compiled and reviewed.

2. The results of this process will be presented to all "verticals" in April and/or May 2005. Each committee will then be requested to develop a multi-year plan to eliminate the

"gaps" identified in their internal controls, which are likely to include lack of documentation in most cases.

3. During and after the previous step, Ms. Williams's office and AMEX will be prioritize the committees by classifying them into high, medium or low risk. They will then focus on the high priority committees by providing them with direct assistance in process mapping; confirming the identified gaps; testing the accuracy of the completed checklists and process maps; and evaluating the multi-year plan established to eliminate the gaps. The medium and low risk committees will complete these steps on their own during this phase although Ms. Williams's office and AMEX will be ready to step in to provide assistance when necessary. In addition, a second firm (Bloom & Company) has been retained to work specifically with the economic development vertical because of its past problems, and a specific review will be performed of the IT Data Center because of its criticality to the county.

4. Development and implementation of each committee's multi-year plan will be closely monitored by Ms. Williams's office and AMEX. In addition, each multi-year plan will be required to have a plan of communication, which must include both materials that communicate control standards and the means by which such materials are provided to employees. Each plan will also be required to include methods to monitor the quality of internal control performance over time and ensure that the findings of audits and other reviews are promptly resolved.

5. Ms. Williams's office will develop certain universal accounting and control policies for all departments and agencies, rather than allowing 47 separate systems to evolve. For example, a 40-page central procurement policy has already been developed, and others are being developed in the areas of meal and travel allowances, time and leave policies, petty cash management, vehicle leasing, etc. Ms. Williams' plan is ultimately to make these policies widely available via a county intranet system.

The subcommittee was given a copy of the internal control checklist and was able to read it subsequent to the meeting. We are also being provided with a copy of the initial "universal" policy and procedure memorandum issued by Ms. Williams's office for our review (concerning procurement). Based upon our discussions with Ms. Williams and the material we have been able to review to date, it appears that the county is making good progress in not only documenting its internal control policies and procedures but also identifying gaps in such controls and eliminating them over a period of time. Thus, the documentation initiatives that we thought were so important are being supplemented with a detailed assessment of the actual controls in place. We believe this is the right approach, and we will continue to monitor its progress.

SUMMARY OF OTHER ISSUES DISCUSSED

As noted above, a summary of the other issues discussed is noted in the attached checklist of sub-committee follow-up actions in 2005. The subjects addressed therein are the following:

1. Review of Deloitte & Touche's "Users Manual"
2. Review of Comptroller's Vendor Claims unit's (CVC's) "Claims for Dummies" booklet
3. Linking-up the various internal control and related documentation initiatives
4. Improvements in the bank reconciliation process
5. Review of the manual check writing and laser printing processes
6. Revenue and cash receipts received directly by The Treasurer's Department
7. The EDV Reform Committee minutes
8. The final EDV CAP
9. CAP tracking and resolution
10. Revenues and cash receipts received in other departments
11. Overtime and leave policies and related payroll systems

CHECKLIST ISSUES NOT DISCUSSED

The following issues were not discussed at the February 8 meeting and were deferred for discussion to a future date:

1. Planning for turnover of key personnel
2. Audit of departmental review and approval procedures
3. Compiling and reporting on specific CVC differences/exceptions
4. Contracts with affiliated organizations re control standards they should follow
5. Manpower limitations and quality of personnel in the Audit Department
6. Need to address the actual operation of controls vs. documentation only

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PREPARED BY: H. RICHARD GRAFER

EXHIBIT III

THE NASSAU COUNTY AUDIT ADVISORY COMMITTEE (NCAAC)
SUB-COMMITTEE ON FINANCIAL CONTROLS

APRIL 25, 2005 MEETING AGENDA AND MINUTES

1. **Internal Control Review Program---Need to request compiled results and EDV reform actions taken**

MINUTES: The sub-committee agreed that the Internal Control Review Program should remain on its agenda indefinitely. In addition, it was agreed that we should request another meeting with Helena Williams in June to discuss the status of this program together with all the EDV reform actions taken to date, a summary of which Ms. Williams promised to provide us with at the last meeting. M. Mosquera will arrange this meeting for us.

2. **IDA CAP---How should we pursue?**

MINUTES: M. Mosquera agreed to make another request of the IDA for their final CAP comments/responses. If the IDA does not comply with this request, the sub-committee agreed to include this fact in any and all reports of its activities for the year.

3. **Manual check-writing and laser printing of checks---Report ready yet?**

MINUTES: M. Mosquera indicated that he is waiting on final comments from the Treasurer's Department. The report should be issued by the next full NCAAC meeting. Mr. Mosquera agreed to summarize the results of the review at such meeting. Preliminary results were discussed briefly but are not summarized separately herein.

4. **Treasurer's Department cash receipts---Should we meet with Deloitte?**

MINUTES: The Sub-committee agreed that a meeting to discuss this subject with Deloitte and representatives of the Treasurer's Department would be beneficial. Consequently, M. Mosquera will arrange such a meeting to take place immediately following the meeting with Helena Williams noted above under 1. Art Gianelli and Helena Williams will also be invited to attend this meeting.

5. **Contracts with affiliated organizations---How should we pursue?**

MINUTES: Mr. Grafer was under the impression that as a result of lessons learned from the EDV experience, all "affiliated" organizations would be required to adopt sound internal control standards. Apparently, this is an objective that may not be easily achieved due to the quasi-independent nature of these organizations, which include IDA, the medical center, Nassau Community College, OTB and the aviation museum. The sub-committee had no specific recommendations regarding this but agreed to ask Helena Williams about it at the next planned meeting with her (see 1. above).

6. **<u>Sales tax discussion</u>**

    a. **<u>NYS allocation</u>**
    b. **<u>No enforcement (see handout with likely non-compliers)=Lost revenue. Should we pursue? How?</u>**

MINUTES: The sub-committee is concerned about both of these related subjects (a. and b.) but realizes that it may not have enough understanding of the issues involved to make any meaningful recommendations. The sub-committee believes that a better understanding of these subjects might provide it with the insights necessary to make such meaningful recommendations. Consequently, the sub-committee intends to request (at the next full NCAAC meeting) that Comptroller Weitzman inquire of the NYS Comptroller about his willingness to provide us with such understanding.

7. **<u>HR issues/manpower limitations, turnover, quality of personnel (see "Good To Great" handout)—Can we do anything to help?</u>**

MINUTES: The sub-committee discussed this subject at great length without developing any meaningful recommendations due to the inherent limitations involved. However, the sub-committee agreed that continually replacing poorer performers with good performers and utilizing "ordinance" personnel wherever possible was the right course of action, even if it takes many years to make a meaningful impact. The other members of the sub-committee commended M. Mosquera for his efforts in this connection, particularly concerning the actions he has taken against the poorer performers. The sub-committee also agreed to keep this subject on its agenda to highlight its importance. It is apparent to the sub-committee that unless continuous progress is made in this area, there could be severe consequences to the county's audit capabilities, including turnover of good performers, increasing manpower constraints and declining morale. The sub-committee also agreed to remain alert to opportunities to create heightened awareness of this problem throughout the administration and Comptroller's Office.

8. **<u>Other issues---General discussion:</u>**
    a. **<u>Departmental review and approval procedures—Should we probe further?</u>**
    b. **<u>CVC exception/difference tracking—Can it be done?</u>**
    c. **<u>Operation of controls—Responsibility to delve further?</u>**
    d. **<u>Other</u>**

MINUTES: **(a)** Although the Audit Department plans to review and test such procedures during its field audits, the sub-committee agreed that this should also be one of the areas of focus for the on-going Internal Control Review Program. Consequently, it was agreed that this subject be discussed with Helena Williams at the next meeting with her (see 1. above);

(b) M. Mosquera agreed to request a list of the most common exceptions/differences noted by CVC during claim processing. Once this is obtained, the sub-committee will decide whether or not to recommend anything further in this area;

(c) The sub-committee does not believe that its role includes actual <u>verification</u> of procedures and controls. Nor, does it have the manpower to accomplish such verification. Consequently, it was agreed that this subject should be discussed at the next full NCAAC meeting together with the possibility of allocating a specific amount of audit hours to the NCAAC to use as it sees fit each year;

(d) at Mr. Grafer's request, M. Mosquera reported on the status of the investigation into duplicate payments made by DSS to various agencies in the past. (Note: This problem was originally reported to M. Mosquera by Mr. Grafer in late 2004). M. Mosquera agreed to report on this subject at the next full NCAAC meeting, particularly since Mr. Grafer expressed concern with the apparent slowness with which the problem is being addressed.

Exhibit IV

Nassau County Comptroller's Advisory Audit Committee -- Sub-committee on Financial Controls Minutes---July 14, 2005

Attendees

Committee Members: H. Richard Grafer, Martha Wong, Manuel Mosquera

Others: Helena Williams (First Half); Henry Dachowitz, John Macari, Wayne Haughton, Maud Vincent (Second Half); and Arthur Gianelli by telephone

The meeting was conducted beginning at 8:30 AM according to a previously distributed agenda, which included the topics noted below in boldface print. The major points discussed included the following:

1. **Update on the Administration's Internal Control Review Program**

--Ms. Williams provided the committee with a report summarizing the results of the completed internal control questionnaires returned by 35 departments with 3,360 total responses. The summary is presented on a vertical-by-vertical basis, although Ms. Williams also has the results on a department-by-department basis. Ineffective controls were noted in 547 responses (16%) while weak existing controls were noted in another 212 responses (6%). As expected, the major weaknesses noted in the completed questionnaires were related to documentation and information technology. Committee members agreed to review this report and communicate with Ms. Williams directly if they have any questions.

--"Level 2" reviews are now in process with respect to major risk areas (Parks/Cash, ARC/Residential, IT/New Data Center, DSS/Mandated Payments and TPVA/New Payment Procedures). "Level 2" reviews involve detailed process/control mapping by American Express.

--Training sessions were held to brief departmental internal control committees on the results of the responses and to discuss the approach that should now be taken to improve ineffective and weak controls. Ms. Williams indicated that she has and/or will be asking each internal control committee to begin "walking-through" and testing those areas deemed to be ineffective and/or weak. Although this does not sound like a logical first step (vs. first mapping the existing procedures), Ms. Williams believes that this approach will achieve the same end result in a shorter period of time and without risking loss of interest and momentum. American Express will be asked to develop a standardized work program for this process although the various internal control committees will necessarily have to tailor the program to their specific circumstances.

2. **Discussion of Internal Control Review Program Approach To Individual Departmental Review and Approval Procedures**

--As a result of other inquiries made by the committee and perusal of a schedule of common claim exceptions prepared by Sue Zecca of CVC, the committee expressed concern about individual department review and approval procedures and whether or not the Internal Control Review Program would address these concerns. Ms. Williams indicated that if departmental review and approval of claims was one of the areas indicated as being ineffective or weak by the internal control questionnaires, then the subsequent "walk-through" and testing required would address this area. As a result, the department head or his authorized designee would most likely be interviewed and subsequently provided with specific procedures he/she should follow before authorizing approval. However, Ms. Williams acknowledged that some departments might not benefit from this. Consequently, we requested that Manuel Mosquera obtain an estimate of the frequency of the common CVC exceptions by type and department from Ms. Zecca before deciding how to proceed further.

3. **Verification of the Accuracy of the Completed Internal Control Questionnaires**

--In the case of Level 2 reviews by American Express, verification by Amex is expected.

---In other cases, no independent verification is planned. However, it is expected that more will be accomplished by having the departmental internal control committees and the other departmental personnel "buy-in" to this whole process than by having an "outside" verification of the responses. Thus, verification won't be necessary because each department will be motivated to "fix their own problems", making verification unnecessary. The committee members agreed that although this approach is somewhat unorthodox, it may very well accomplish more in a short period of time than a more orthodox approach.

4. **Discussion of the Recommendation (Resulting from the EDV Audit) That Affiliated Organizations, Such As IDA, OTB, NCC, NUMC, Etc., Be Required to Adopt Sound Internal Control Standards**

--Time did not permit discussion of this topic, so it will be kept on the agenda for a future meeting.

5. **Discussion of EDV Reform Actions Taken To Date**

--Time did not permit discussion of this topic, so it will be kept on the agenda for a future meeting.

6. **Other**

--We briefly discussed the recently-publicized timesheet reporting problems, which Ms. Williams intends to address rigorously using the police department as a testing ground.

--The effectiveness of the procurement policy recently published by Ms. Williams and any new policies established by Ms. Williams' department will be discussed at a future meeting.

--In general committee members believe that good progress is being made in the Internal Control Review Program. Ms. Williams expressed a willingness to meet with the committee again at a later date to provide another status report.

7. Update on Improvements Being Made in the Treasurer's Department

-- Treasurer Henry Dachowitz first wanted to share his views about a few subjects unrelated to the purpose of the meeting. After he shared these views, Member Grafer indicated that he would not discuss them at this time but instead would pass them on to the full committee.

--Mr. Dachowitz also indicated that although he had previously disagreed that his department was understaffed, he now believes as a result of various developments that it is significantly understaffed.

--Mr. Dachowitz and his staff briefed us on all the changes being made in his department, particularly with respect to (1) the bank reconciliation process, (2) manual checks and laser printing of checks, (3) the effort to identify all non-NIFS bank accounts in order to either eliminate them or make them part of the NIFS reporting system, (4) the new debt management system, (5) the new Parks cash receipts system (Rec-Track) and (6) Deloitte's progress in developing a Treasurer's Department policies and procedures manual. Without getting into specifics, it is clear that significant progress has been made in all of these areas and will continue to be made in the months ahead.

8. Obtain a Better Understanding of All Cash Receipts Received in the Treasurer's Department and the Related Internal Controls with Respect to Such Receipts

--Mr. Dachowitz explained that 60% of all cash receipts came from sales taxes, 20% from property taxes and the other 20% from a variety of other sources. Sales taxes are wired to the county by the state with a schedule showing the amount due. Mr. Dachowitz noted that he was delighted that the Comptroller's Office is planning to do some auditing of the state's calculation and of sales tax compliance within the county (Note: Mr. Dachowitz got this impression, which is somewhat inaccurate, from a draft of the last NCAAC minutes).

--Mr. Dachowitz and his staff then described the other sources of receipts and how they are controlled and accounted for. From a physical processing standpoint, checks (and a limited amount of cash) are received and "opened" by cashiers in a "walled-off" cage. The cashiers enter the receipts into the NIFS system and prepare the related deposit slips. However, the NIFS entry is not actually finalized until reviewed by someone independent of the cashiers. The receipts are then deposited on a daily basis into the appropriate bank accounts. Verification that the deposits have actually been credited to the county by the respective banks is also done on a frequent basis by someone independent of the cashiers. In addition, now that bank reconciliations are current and reviewed by someone independent of the person preparing the reconciliations, any reconciling items related to the deposits are quickly followed-up on. Most checks received by the Treasurer's Department are related to late tax payments, net town tax remittances, PILOTS (payments in lieu of taxes), court receipts and miscellaneous taxes (hotel/motel tax, entertainment venue taxes, 911 taxes for cell phones and hard-wired phone lines, etc).

--We inquired about the processing procedures and related controls with respect to all these various receipts and were generally satisfied with the procedures and controls represented to us as being in place except with respect to miscellaneous taxes (see next point). In addition, we inquired about receipts received at individual departments, e.g., Parks, TPVA and the courts. The Treasurer's Department has responsibility for the cash management and control procedures existing at these various departments and has been reviewing them and making changes where appropriate.

--We did have one concern about review and compliance with the various miscellaneous taxes noted above (hotel/motel tax, entertainment venue taxes, cell phone taxes, 911 taxes and any other similar taxes). Although tax receipts are apparently compared to the related tax returns, there is no assurance that the tax returns are correct. Committee members agreed to keep this subject on our agenda despite the fact that the related revenues are quite small.

--A final issue discussed was that of county receivables. Mr. Dachowitz noted that historically the county did not record receivables. Consequently, collection efforts were limited with respect to non-payment and/or under-payment of such receivables. The county (and the Treasurer's Department) is now in the process of identifying all receivables and systematically entering them into a receivable system. In addition, a collection agency has been retained via competitive bid and will be pursuing collection of all such receivables that are overdue. (Note: Arthur Gianelli briefed us on this subject at a previous full committee meeting; however, it appears that additional progress has been made in the collections area since that time).

The meeting was adjourned at 11:15 AM.

Exhibit V

NCAAC SUB-COMMITTEE ON FINANCIAL CONTROL SYSTEMS---QUESTIONS/RECOMMENDATIONS REGARDING RESPONSES RECEIVED FROM DEPARTMENTAL INTERNAL CONTROL COMMITTEES AND THE RELATED SUMMARY THEREOF PREPARED BY THE COUNTY'S OFFICE OF COMPLIANCE

Question: Only 35 departments (of approximately 47) completed the internal control questionnaire. Which departments did not respond and is any specific follow-up action planned with respect to them?

Answer: The Office of Compliance sent the Control Environment Questionnaire to 37, not 47, County departments and agencies and received responses from 36, one being received after computations were made. Agencies that were not sent the questionnaire were small divisions of larger departments/agencies. The Office of Compliance has worked with the Deputy County Executives who oversee these agencies to ensure that they understand the basic principles of internal control and are able to establish effective internal control mechanisms.

Question: A disproportionate number of "ineffective" and "weak" controls were identified in the Public Safety and Health and Human Services verticals. Is there any particular reason for this and is any specific follow-up action planned with respect to these verticals?

Answer: We will be asking each departmental Internal Control Committee to assess both the no answers and where "weak" ratings were noted in the context of the risk presented. Ideally, we want the departments to map out what they see as a multi-year work plan. I intend to review and approve these plans from a risk perspective and ensure that the highest priorities are assessed first. Realistically, we will need to work hard to get the Internal Control Committees functioning effectively to accomplish these goals.

Question: The summary of responses does not identify particular departments that have a disproportionate number of "ineffective" and/or "weak" responses. Which departments had a disproportionate number of "ineffective" and/or "weak" responses? Is any specific follow-up action planned with respect to them?

Answer: I am attaching a numerical analysis of internal control gaps identified by each responding department and agency. Please note that this analysis does not factor in the risk associated with the "ineffective" and/or "weak" response. We will be completing a review which incorporates a risk analysis in 2006. The Office of Compliance has been working and will continue to work with the Internal Control Committees of departments and agencies that have the most significant numbers of gaps to identify their most significant risks and develop plans for remediation.

Question: With respect to control environment activities with a large number of "ineffective" and/or "weak" responses across the board, e.g., documentation and IT controls, does the Office of Compliance plan any overall approach to improving activities in these areas, e.g., policy directives or other techniques?

Answer: The Office of Compliance will be working with departments on appropriately documenting policies and procedures for staff. We intend to provide general instructions to departmental Internal Control Committees on how to draft and implement effective policies and procedures. In addition, the Office of Compliance will work with the Department of Information Technology and line agency staff to review information technology issues identified by the Control Environment Questionnaire.

Question: With respect to individual departments with "ineffective" and/or "weak" controls, does the Office of Compliance plan any monitoring of the related Internal Control Committee's "gap analysis" to assure that progress is made in these areas (assuming that they are not being subjected to "Level 2 Reviews" by AMEX)? In particular, we are concerned that priorities established by Department Heads may interfere with the activities and/or recommendations of the Departmental Internal Control Committees. How does the Office of Compliance plan to monitor and deal with specific instances of this problem?

Answer: Our survey indicated that department heads are strongly supportive of strengthening internal controls and we believe firmly that they will not impede the work of Internal Control Committees, but rather will promote them. In any event, the Office of Compliance will be conducting follow-up meetings with departmental Internal Control Committees to monitor their progress.

Question: Based upon various discussions and inquiries conducted by the Sub-Committee and Sue Zecca's summary of common CVC exceptions, the Sub-Committee believes that individual department review and approval procedures could be improved throughout the County. In particular, the Sub-Committee is concerned that Department Heads or their authorized designees may not understand the importance of their review and approval of claims prior to submission of such claims to the CVC. Consequently, we believe that additional focus on this area is required by the Office of Compliance. Does the Office of Compliance plan any specific follow-up with respect to this area?

Answer: We have reviewed Ms. Zecca's summary of "Common Errors Encountered by Vendor Claims Staff of Comptroller's Office." We would welcome the opportunity to work with the Comptroller's Office to develop a training program for those individuals designated by Department Heads to review and approve claims.

Nassau County
Analysis of Identified Internal Control Gaps

Department	No Control Exists	(1s and 2s) Rating, if applicable	Sum of Columns B & C
Traffic Safety Board Count	35	25	60
Parks Count	11	39	50
IT Count	22	27	49
DPW Count	28	19	47
Consumer Affairs Count	36	8	44
Minority Affairs Count	35	6	41
Purchasing Count	41	0	41
ARC Count	20	18	38
OMB Count	27	2	29
Planning Count	14	15	29
Drug and Alcohol Count	23	4	27
CASA Count	21	3	24
County Attorney Count	19	5	24
Grants Count	19	5	24
Senior Citizens Count	19	2	21
Veterans Count	20	1	21
Probation Count	17	3	20
OEM Count	15	4	19
OHIA Count	9	8	17
Social Services Count	13	3	16
Fire Marshal Count	8	7	15
Labor Count	12	3	15
HR Count	11	3	14
Undersheriff Count	13	1	14
Treasurer Count	12	0	12
Mental Health Count	8	2	10
Public Administrator Count	8	0	8
Youth Board Count	7	1	8
TPVA Count	2	5	7
Medical Examiner Count	3	3	6
Health Count	5	0	5
Physically Challenged Count	5	0	5
Real Estate & Devel. Count	4	1	5
HCVP-Section 8 Count	4	0	4
Police Dept. Count	2	0	2

Grand Totals	**548**	**223**	**771**

Exhibit VI

NASSAU COUNTY AUDIT COMMITTEE MEETING MINUTES
JANUARY 24, 2006
REPORT OF THE SUB-COMMITTEE ON THE NASSAU UNIVERSITY MEDICAL CENTER ("HOSPITAL") AT A MEETING HELD ON JANUARY 24, 2006 AT THE HOSPITAL

The following persons were in attendance: Daniel Kane (CEO of the Hospital), Gary Bie (CFO of the Hospital), Randy Ghisone, Manuel Mosquera, Robert Andrew Wild.

At the outset, an inquiry was made as to whether George Kalkines of the Mannatt firm would be present and Mr. Kane advised that he had not invited Mr. Kalkines. Mr. Mosquera indicated that he had extended the invitation and (after placing a call) it appeared that Mr. Kalkines had a conflict and could neither attend the meeting, nor dial in by conference call. The meeting nevertheless, went forward.

The issue of the projected loss for 2005 was discussed. The original loss was projected at $6.5 million. Messrs. Kane and Bie predicted the loss to be approximately $11.25 million (unaudited).[1]

Unless changes were made, the loss in 2006 (rolling forward the monthly loss for 2005) would be $32 million.

The 2006 budget submitted was a break-even by budget with various initiatives which have been approved by the Board and provided to the Health Committee of the County Legislature and to the Comptroller's office. Mr. Kane described the budget as "very aggressive" indicating that to achieve break-even "everything would have to fall into place". As of the date of the meeting (month of January), the performance for the Medical Center was behind the anticipated budget. One reason given was that the case mix projected in the budget was apparently higher than had been achieved thus far in January.

The cash position of the Hospital was discussed and described by Mr. Kane as "very tenuous". Apparently, New York State has acknowledged monies owed to the Hospital, but these monies have been delayed. These monies include approximately $6.5 million in pool payments and approximately $8 million in inter-government transfers. The Hospital did not receive any inter-government transfers in 2005 (that is the unpaid $8 million) and is awaiting an agreement between New York State and the Federal government for an amendment to the State's Medicaid plan. According to Mr. Kane "State and the Feds are very far apart."

The following are the initiatives described by Mr. Kane to help achieve the break-even budget:

1. Achieving Hospital-based status for the A. Holly Patterson Nursing Home ("Nursing Home") and achieving bed hold status ($6.2 million in total) (Mr. Kalkines is working on this). [It was noted that these issues have been going on for years and are not within the control of the Hospital].

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1 These losses apply to the entire corporation, not the Hospital alone.

2. Opening three new behavior health units during the year which are projected to produce $2.8 million in additional revenue.

3. Management of payment denials (anticipated to $2 million in additional revenue).

4. Selling accounts receivable (older receivables) (anticipated to achieve additional revenue of $872,000).

5. Enhanced approach to capturing charges (anticipated to achieve $.5 million in additional revenue).

6. Improving documentation of medical records (coding, etc.) (anticipated to achieve an additional $750,000 in additional revenue).

Some of the above items are in the 2006 budget and represent a conservative list of what actually had been recommended by Navigant, a consultant.[2] Mr. Kane indicated a desire to present as conservative and realistic figures as possible.

On the expense side, the initiatives are:

1. Supply chain management (partially achieved) valued at $3.9 million in savings.

2. Insurance (malpractice and GCL) savings of $1 million.

3. Staff reductions (by reducing overtime and use of agency staff) approximately $15.6 million.

It was noted that the use of agency staff has not been well controlled and is now under greater control. There has also been a layoff of 7 physicians and approximately another 4 or 5 physicians will be laid off as well (total savings for the physician layoffs equal $2.675 million).

With respect to normal attrition, it is expected that approximately 120-175 persons would leave their positions in a year, however, many of these are nurses and thus, about half would have to be replaced. Thus, actual attrition would be between 60 and 80 people and would be subject to individual review and a determination of the need to replace such individuals on a case-by-case basis.

Mr. Kane pointed out (with respect to the original Mannatt report) that in certain areas Mannatt felt there were too many physicians and yet, in other areas, it was indicated there may be too few. Apparently, there is some disagreement on both sides of that issue (disagreement between the Hospital and departmental Chairs and the Mannatt report). Examples were given where on the one hand, the Hospital had too few full-time equivalent physicians in a given

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[2] Apparently, Navigant's recommendations dealt (in part) with items 3, 5 and 6 above.

department (e.g., department of Medicine) and other areas where the Hospital had too few full-time equivalent physicians (e.g., anesthesia).[3]

One of the problems pointed out by Mr. Kane is that full-time equivalent is looked at as 2,080 annual hours, however, in the Hospital there are actually less hours because of the number of sick days and vacation days, etc. permitted which has an actual effect on the full-time equivalent count.

Mr. Kane advised that overtime is down by approximately 26% (based on a review of a single payroll), but there is a need to get this even lower.

Mr. Ghisone asked what the projected loss was for the month of January and Mr. Kane responded that it was between $2 and $2.5 million caused by COLA, case mix issues, a failure to get the Hospital-based status for the A. Holly Patterson Nursing Home and a run rate loss from December of approximately $1.4 million.

According to Mr. Kane, one way to reduce nursing costs and overtime is to hire per diems rather than use agency nurses. This saves on fringe benefit costs and agency costs, but it is not clear how much will be achieved.

Mr. Mosquera pointed out that in his view, the Hospital was in a "danger zone" with respect to cash balances and inquired (even assuming the success of the initiatives), what would be the cash position over the next few months?

Mr. Kane replied that the Board had authorized borrowing from the captive insurance company. He further pointed out that if the pension payment due in early February had to be made and no borrowing was achieved, there was a danger of missing a payroll.

Mr. Kane further pointed out that if some of the pool monies described above are not received and other anticipated revenues do not come through, it may be necessary to look to the County for assistance.

Apparently, there is $25 million in the captive and any borrowing would require that the remaining balance provide at least a 90% confidence level to the actuaries with respect to outstanding claims and IBNR (incurred, but not reported).

Mr. Bie indicated that he felt Mr. Mosquera was right that cash is in the danger zone and that the pension payment could only be made with borrowing. Apparently, any borrowing from the captive must be returned within twelve months (past borrowings have been so treated).

Mr. Kane pointed out that the Hospital has an essential structural imbalance which may not be entirely curable. Apparently, revenues go up on average of 1% per year, but expenses go up 3%-4% per year (mostly employee benefits, utility costs and COLA costs).

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[3] From this discussion, it appears that a consultant (presumably Navigant) (other than Manatt) was hired by the Hospital and that in specific areas, there may be disagreement between the Manatt recommendation and those of the additional consultant.

Mr. Kane further pointed out that if the pension payment required 5 years ago were to be applied today, the Hospital would probably run without a deficit. Mr. Mosquera pointed out that the County itself faces similar issues. The County, of course, has taxing authority (per Mr. Kane) whereas the Hospital does not.

Mr. Kane felt that significant headway would be made with respect to the full-time equivalent issue in 2006 which was not actually accomplished in 2005 although it was intended to be so accomplished. Mr. Kane said that the management structure is now in place to accomplish the FTE reduction.

In terms of what initiatives are "within the control of the Hospital" versus those that are not within the control of the Hospital, Mr. Kane estimated that most of the initiatives are within the Hospital's control. Of the total initiatives of perhaps $36 million, apparently approximately $9.4 million is not within control.

With respect to the Nursing Home, there are plans to relocate the Nursing Home to the Hospital campus and substantially reduce its size. The reduction would be to approximately 300 or so beds (rather than the 500 beds originally planned). The Berger Commission has identified Nassau County as being over bedded in nursing home beds. If the beds are moved to the Hospital campus and the hospital-based rate is achieved, the Nursing Home should run at least break-even or better.

The meeting concluded after approximately 1.5 hours.